

Fiscal Note

State of Alaska
2021 Legislative Session

Bill Version:	SB 55
Fiscal Note Number:	5
(S) Publish Date:	4/19/2021

Identifier: SB55-RET-PERS-3-8-21
Title: EMPLOYER CONTRIBUTIONS TO PERS
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: SFIN

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Retirement and Benefits
OMB Component Number: 64

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

	FY2022 Appropriation Requested	Included in Governor's FY2022 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2022	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous			200.0	500.0	700.0	1,000.0	1,300.0
Total Operating	0.0	0.0	200.0	500.0	700.0	1,000.0	1,300.0

Fund Source (Operating Only)

1002 Fed Rcpts (Fed)			24.4	65.7	92.0	131.5	170.9
1178 temp code (UGF)			122.6	273.9	383.4	547.7	712.0
1251 Non-UGF (Other)			43.3	130.9	183.2	261.7	340.2
1252 DGF Temp (DGF)			9.6	29.5	41.4	59.1	76.8
Total	0.0	0.0	199.9	500.0	700.0	1,000.0	1,299.9

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2021) cost: 0.0 (separate supplemental appropriation required)

Estimated CAPITAL (FY2022) cost: 0.0 (separate capital appropriation required)

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version/comments:

Initial version.

Prepared By: Ajay Desai
Division: Retirement and Benefits
Approved By: Kelly Tshibaka, Commissioner
Agency: Administration

Phone: (907)465-4471
Date: 03/08/2021 12:00 PM
Date: 03/08/21

REPORTED OUT OF
SFC 04/19/2021

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2021 LEGISLATIVE SESSION

BILL NO. SB 55

Analysis

Note: This fiscal note is submitted in accordance with AS 245.08.036 which requires any bill affecting the state retirement systems have an actuarial fiscal note. This fiscal note is listed in the Department of Administration, Division of Retirement and Benefits for informational purposes to avoid multiple fiscal notes in the same component. If this legislation is enacted, these costs will be reflected in the additional payroll contribution across all agencies in the appropriation bill.

This legislation removes the 22 percent cap on the payroll contribution to the Public Employees' Retirement System (PERS) for the State of Alaska as a PERS employer. All other PERS employers' rates will remain capped at 22 percent of payroll. The contribution cap, which is lower than the annual actuarially determined contribution rate for the retirement system's normal and past service costs, was implemented to reduce the cost burden on PERS employers. The difference between the 22 percent and the full actuarially determined contribution rate is subsidized by an unrestricted general fund (UGF) annual payment to the retirement system known as the additional state contribution or "on-behalf" payment per AS 39.35.280 - Additional State Contributions.

The Alaska Retirement Management Board approved an actuarially determined contribution rate for Fiscal Year 2022 for PERS employers of 30.11 percent. Under AS 39.35.280, the state is obligated to make up the difference between the statutory employer contribution rate of 22 percent and the actuarial rate of 30.11 percent, calculated to be \$193.5 million. This legislation would direct the state to apply the 30.11 percent actuarial rate to agency payroll rather than contributing that amount through the additional state contribution payment. The net impact to the state's overall contribution to the retirement system would be unchanged.

This legislation only impacts the State of Alaska as a PERS employer, and excludes the University of Alaska, municipalities and school districts, and some state corporations.

The budgetary impact of this legislation will be reflected as a shift from the direct appropriation to the PERS, which is typically funded with UGF, to agency payroll, where the cost can be spread across multiple fund sources. This legislation continues to provide for the full actuarial contribution to the retirement system while changing the financing structure in the state budget.

However, the change in the payment stream from a lump-sum payment typically made in July of each fiscal year to a stream that results in 26 payments made bi-weekly through the state payroll system will impact the projected annual investment returns to PERS. This change is projected to reduce, on average, one-half year's worth of investment income each fiscal year, or roughly a reduction of \$3.7 million in investment income for Fiscal Year 2022. This accumulation of the lost investment income each fiscal year will lead to an increase in the additional state contributions. With the proposed effective date of SB 55 being July 1, 2021, the first year of investment losses would occur in Fiscal Year 2022 and have no impact on that year's additional state contribution, but will impact future years starting with Fiscal Year 2023. Each year, actuarial gains and losses are accounted for in the computation of the PERS employer contribution rate, which the reduced investment income would impact.

Page one of this fiscal note reflects the estimated increase in the state's actuarially determined contribution to PERS resulting from the change in the timing of payments to the trust fund. This will not impact other PERS employers as their contribution rates remain capped at 22 percent of payroll. The increased contribution is calculated at \$200.0 in Fiscal Year 2023 and grows to \$1,300.0 by Fiscal Year 2027.

Because this legislation allows the state to finance the full cost of retirement through payroll contributions, the fund sources on page one of this fiscal note are proportionally equivalent to the fund sources on Fiscal Note 2 - Various, All Branches.



March 5, 2021

Mr. Jim Puckett
Deputy Director/Chief Pension Officer
Division of Retirement and Benefits
State of Alaska
P.O. Box 110203
Juneau, AK 99811-0203

RE: Fiscal Note Analysis for SB 55

Dear Jim:

As requested, we are providing a fiscal note analysis for SB 55.

SB 55 is a proposed bill that would remove the 22% cap on the payroll contribution to the State of Alaska Public Employees' Retirement System (PERS) for the State of Alaska as an employer. This would change the timing of a portion of the Additional State Contributions that are paid to the trusts as follows:

- Current: Additional State Contributions are deposited on July 1 of each fiscal year.
- Proposed: The portion of the Additional State Contributions attributable to the State of Alaska's employees will be paid at the same time as employer contributions are paid (i.e., tied to payroll – 26 times per year). The remaining portion of the Additional State Contributions will continue to be paid on July 1.

Increase in PERS Additional State Contributions for FY22-FY27

The PERS Additional State Contributions for FY22-FY27 are projected to increase due to SB 55 as shown in the table below¹.

(\$ millions)	FY22	FY23	FY24	FY25	FY26	FY27	6-Year Total
Increase in Additional State Contributions Under SB 55	\$0.0	\$0.2	\$0.5	\$0.7	\$1.0	\$1.3	\$3.7

By contributing a portion of each year's Additional State Contribution throughout the year rather than on July 1, the PERS trusts lose, on average, one-half year's worth of investment income each year. The accumulation of the lost investment income is what leads to the increase in Additional State Contributions. The proposed effective date of SB 55 is July 1, 2021. Therefore, FY22 would be the first year of lost investment income, which is why the impact on the FY22 Additional State Contribution is zero.

¹ Projected Additional State Contributions beyond FY27 are also expected to increase but these increases are not included as part of this fiscal note analysis.

March 5, 2021

Mr. Jim Puckett

State of Alaska

The portion of the Additional State Contribution attributable to the State of Alaska's PERS employees (employer #101) was determined based on the valuation pay of employer #101's active employees relative to the valuation pay of all active employees as of June 30, 2020. Based on the June 30, 2020 valuation data, the valuation pay for employer #101's active employees represents 49.4% of valuation pay for all PERS active employees. This percentage was assumed to remain constant in all future years.

These calculations are based on the June 30, 2020 valuation results and models outlined in our draft valuation report dated January 22, 2021. Our projections assume no actuarial gains/losses after June 30, 2020. If post-June 30, 2020 experience differs from the assumed experience, then the increases in Additional State Contributions shown in this letter would be different².

The ARMB, staff of the State of Alaska, and SB 55 bill sponsors may use this letter for purposes of analyzing the potential cost impact of SB 55. Use of this letter, for any other purpose or by anyone other than the ARMB, staff of the State of Alaska or SB 55 bill sponsors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, you should ask Buck to review any statement you wish to make on the results contained in this letter. Buck will not accept any liability for any such statement made without the review by Buck.

Future actuarial measurements and projections may differ from the current measurements presented in this letter due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this letter.

This letter was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. David Kershner and Scott Young are Fellows of the Society of Actuaries, Enrolled Actuaries and Members of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

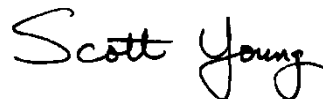
This fiscal note analysis is provided by request for informational purposes, and is not intended to show favor nor opposition to the proposed changes.

If there are any questions, David can be reached at (602) 803-6174 and Scott can be reached at (216) 315-1929.

Respectfully submitted,



David J. Kershner, FSA, EA, MAAA, FCA
Principal, Wealth
Buck



Scott Young, FSA, EA, MAAA
Director, Health
Buck

Copy to: Mr. Kevin Worley, State of Alaska

² Please see Section 6 of the draft June 30, 2020 valuation report dated January 22, 2021 for a more detailed discussion of risk factors related to the future funding of PERS.